Policy Decay and Political Competition

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    - Transport: horses $\rightarrow$ automobile $\rightarrow$ autonomous cars
    - Media: Radio $\rightarrow$ television $\rightarrow$ Internet.
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    - Copyright law in age of "YouTube".
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- Decay also afflicts contracts, organizational form, culture, etc.

- But today is about policy decay ...

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- The need for legislation provides an opportunity.
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Donald J. Trump ✔ @realDonaldTrump · Jul 18

As I have always said, **let ObamaCare fail** and then come together and do a great healthcare plan. Stay tuned!

💬 42K   ↻ 18K   ♡ 84K   ✉

Policy Decay & Political Competition II

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- One view: *"As Mitch McConnell has bluntly explained, persuadable voters do not pay close attention to policy details. If they see leaders in both parties getting along, they will assume things are going well, and—this is the crucial detail—they will consequently reward the party in power. If they see a nasty partisan fight, they will assume Washington is failing, and reward the opposition.*

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- Strategy in action: "We're going to do everything — and I mean everything we can do — to kill it, stop it, slow it down, whatever we can."
  John Boehner (House Speaker) on Obama's legislative agenda.

Far-Sighted Strategy

What We Do

- Develop a novel dynamic model of legislative policymaking with decay.
    - Policy has ideological and quality dimensions.
    - *Decay* arrives exogenously.
    - Policymaking via legislative bargaining with endogenous status quo.
    - Endogenous transitions of power.

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Our approach: Take decay as given and explore its implications.

1. The strategy of politics.
    - How to use leverage and when to obstruct.
2. Policy outcomes and policy dynamics.
3. What this means for gridlock and the power of agenda setting.
4. Political turnover: The life and death of governments.

Related Literature

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  - Large recent literature following Baron (1996) & Kalandrakis (2004).
  - Doesn't allow for decay.
  - Focus is on ideological R^n space & time-varying coalitions.
  - Imposes *exogenous* power transition rule (or no transitions).
  - Exceptions: Levy & Razin (JET 2013); Forand (JET 2014).

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- Repeated elections & candidate selection.
    - Single office holder. No opposition nor obstruction.
    - We study accountability based on "the need to do something."
    - $\approx$ "blame game" bargaining of Groseclose & McCarty (2001).

A Model of Decay

- Policy has two dimensions: Ideology ($\mathbb{R}$) and Quality ($\mathbb{R}^-$).
  - Ideological space represents efficient frontier.

- Two players, L and R.
  - Ideal points $(0,0)$ and $(\pi, 0)$.
  - Standard spatial preferences (e.g., quasi-linear).
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- Time is discrete, $t = 1, 2, \ldots$.
    - Dynamic linkage: Policy (x_t, q_t) in period t is status quo in $t+1$.

Policymaking Game

- Timing: In each period t for status quo (x_{t-1}, q_{t-1}),

  1. Decay λ_t arrives according to F_λ.
  2. Proposer, P_t, offers (x^P, q^P), Receiver accepts or rejects.
  3. If reject, policy decays to $(x_{t-1}, q_{t-1} - \lambda_t)$.
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- Dynamic Romer-Rosenthal take-it-or-leave-it policy bargaining.
  - Policy & outcomes can be controlled precisely.
  - Decay *can* be removed <u>costlessly</u> and <u>instantaneously</u>.
  - Policy cannot be decay contingent.

Legislative Bargaining Without Decay
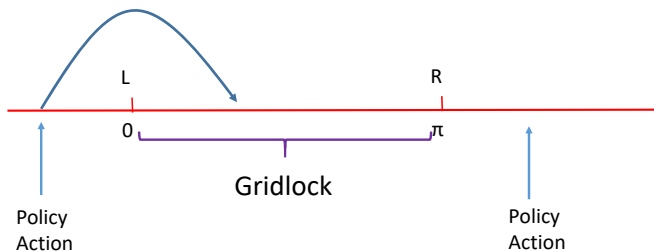
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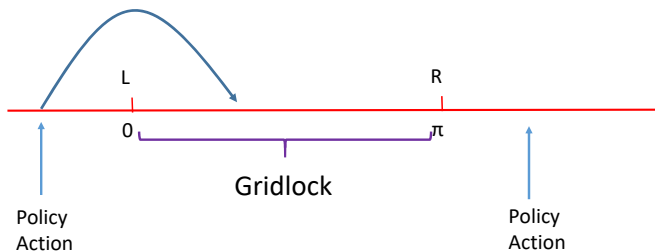
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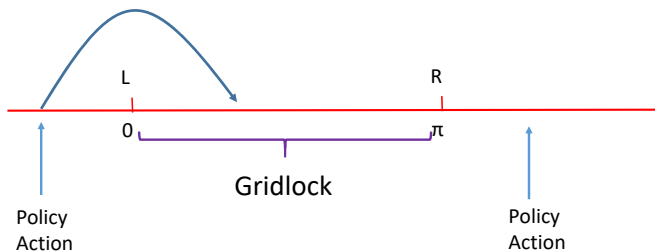
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- Our answer: Decay & the need for a legislative fix.

Benchmark: Fixed Agenda Control

- Fix R as Proposer in every period – No transitions.
- Set status quo within the gridlock interval.

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Fixed Agenda Control — Equilibrium
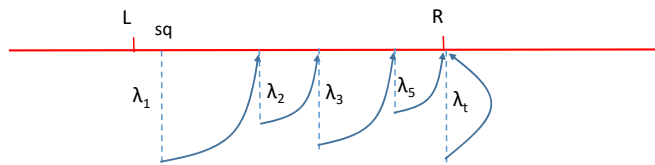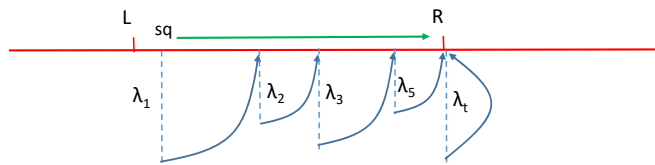
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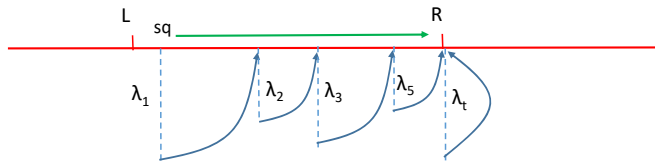
Property 1: Policy path *always* on efficient frontier.

- Speed depends on shape of (global) utility function.
- Off-path future threat points incorporated into deals today.

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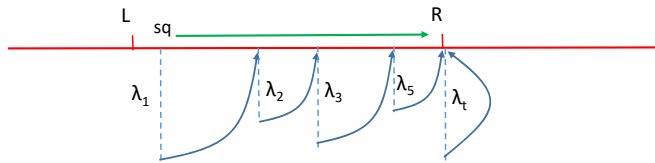
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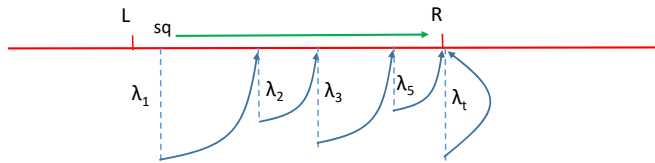
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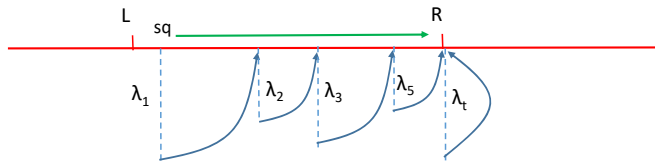
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Property 2: Proposer has strictly positive policy leverage.

- Policy path is strictly monotonic.
- ... until policy reaches his own ideal point at π.
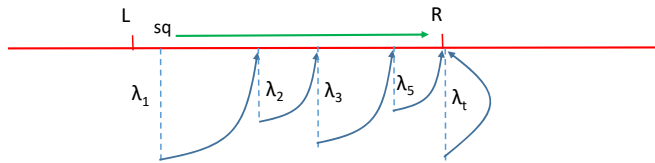
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Property 3: For risk averse policymakers, policy path is *dynamically* inefficient.

- Policymakers can't implement efficient inter-temporal deals.

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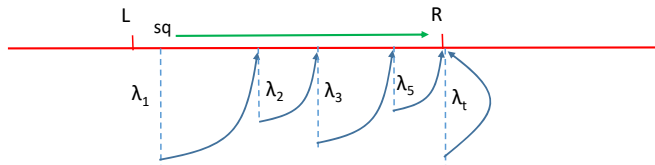
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Property 4: Policy ultimately stabilizes at π.

- Policymakers continue to legislate but only to prevent change.

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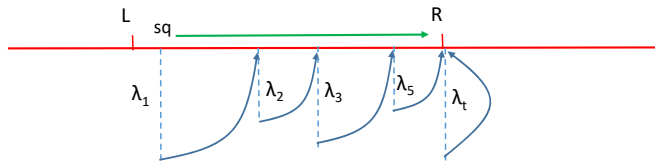
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General model: Properties 1, 2, and 4 will fail (3 is attenuated but persists).

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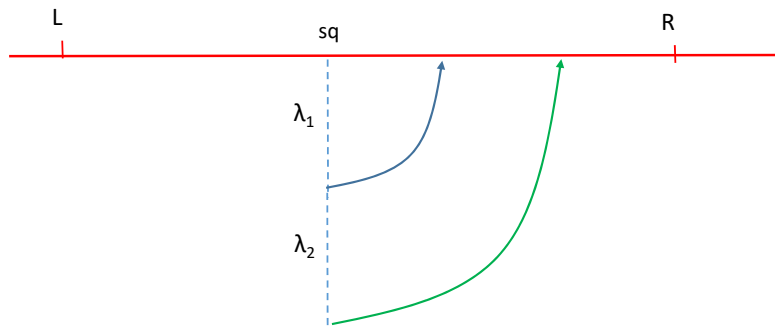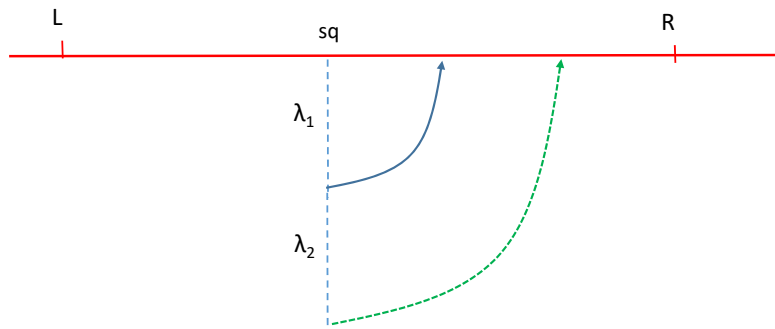
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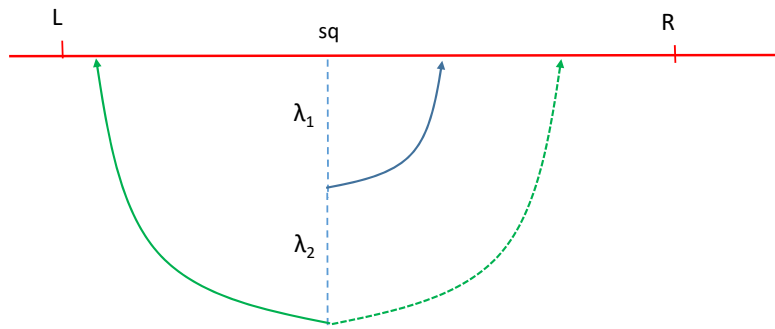
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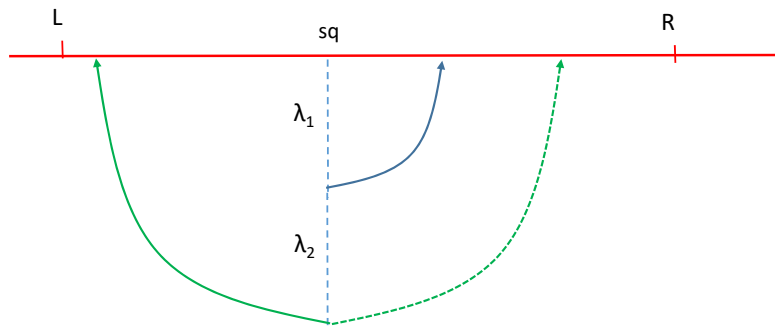
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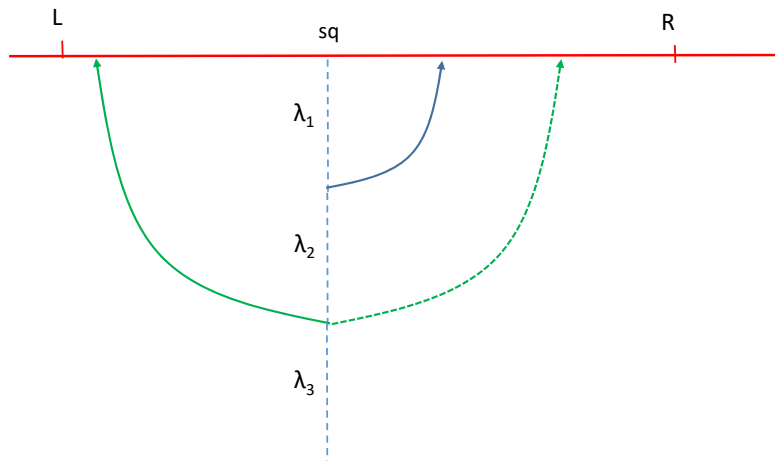
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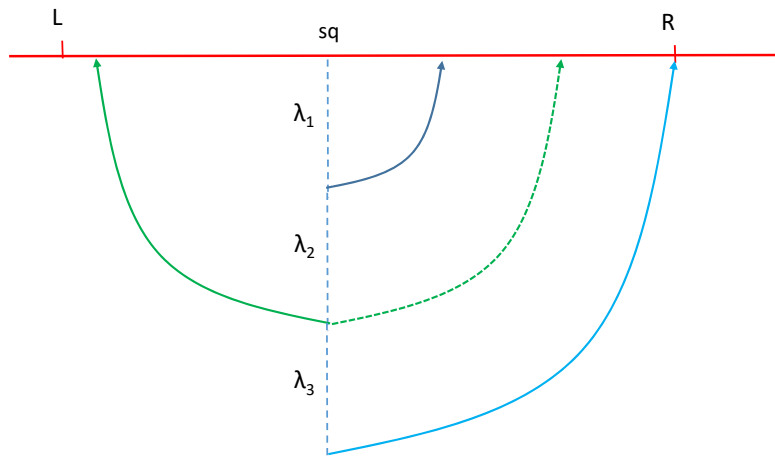
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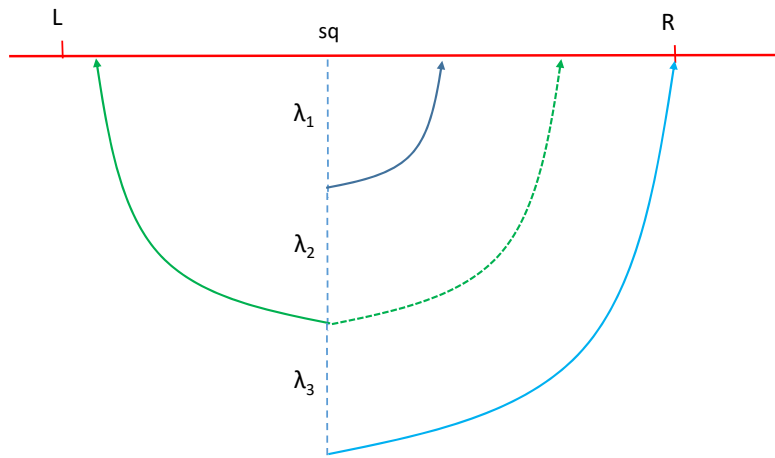
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- Where does this logic end?

Endogenous Transitions — Equilibrium

Property 1: The equilibrium path is statically inefficient.

- Policymakers cannot always implement an efficient deal.
- When deal is accepted it is on the efficient frontier ...
- Obstruction occurs in equilibrium ... albeit infrequently.
- Governments fall and power transitions.

Property 2: The Proposer's policy leverage weakens and can reverse.

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To see why, accept the following premises (that turn out to be true):

- Premise 1: Being the Proposer is strictly valuable.

- Premise 2: Value function strictly decreases in distance from ideal point.

- Premise 3: Cost of decay today outweighs benefit of better leverage tomorrow.

Valuable Proposal Power
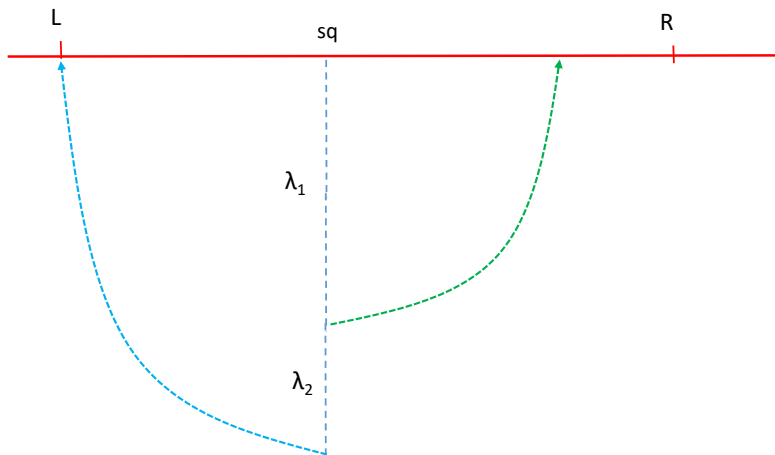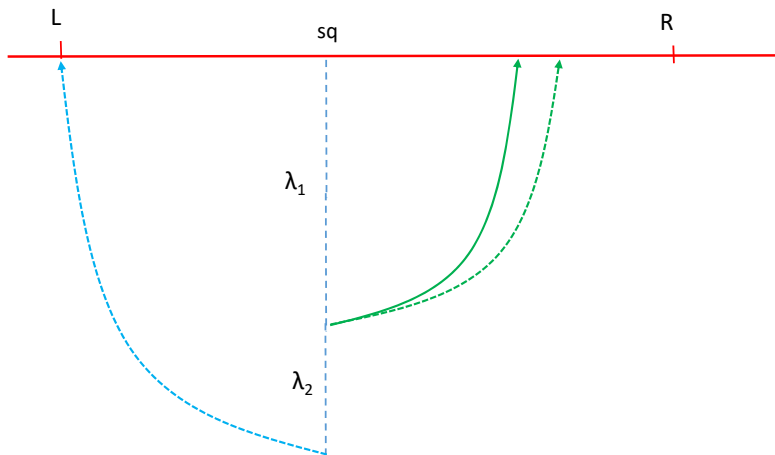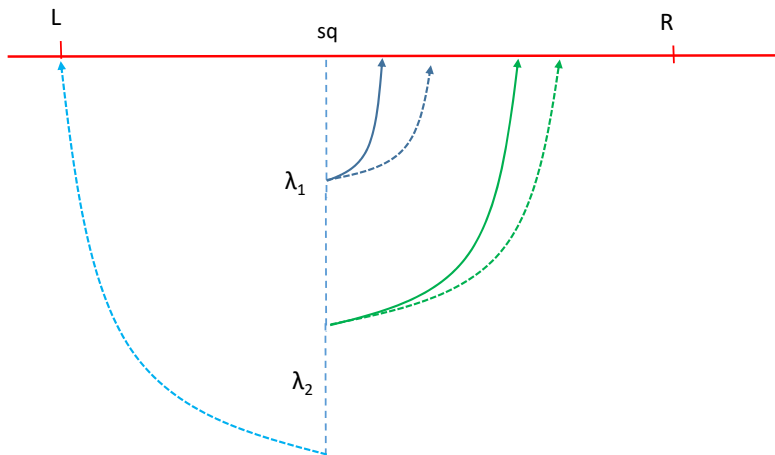
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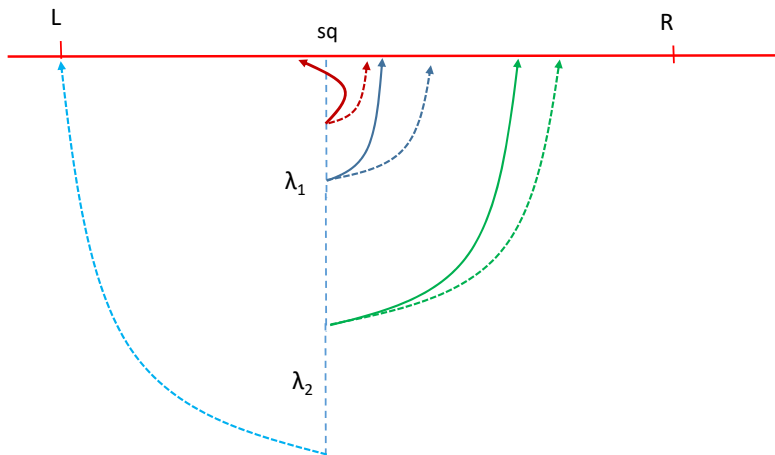
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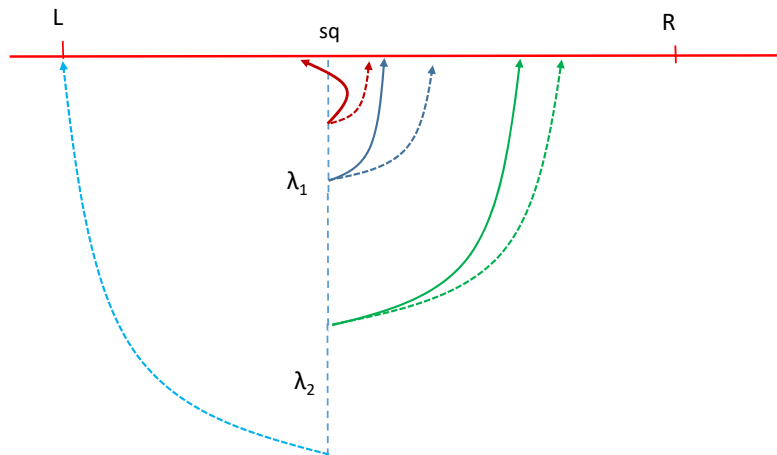
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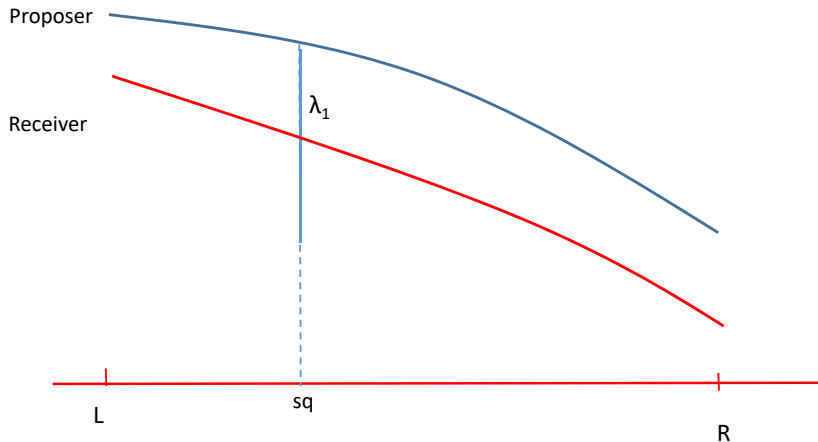
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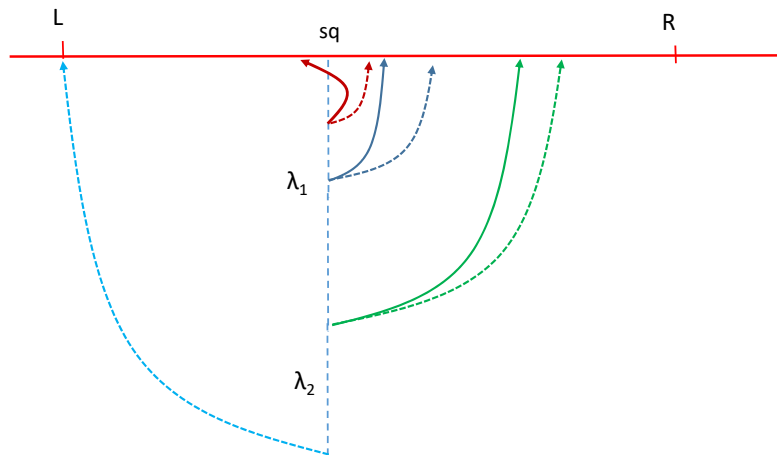
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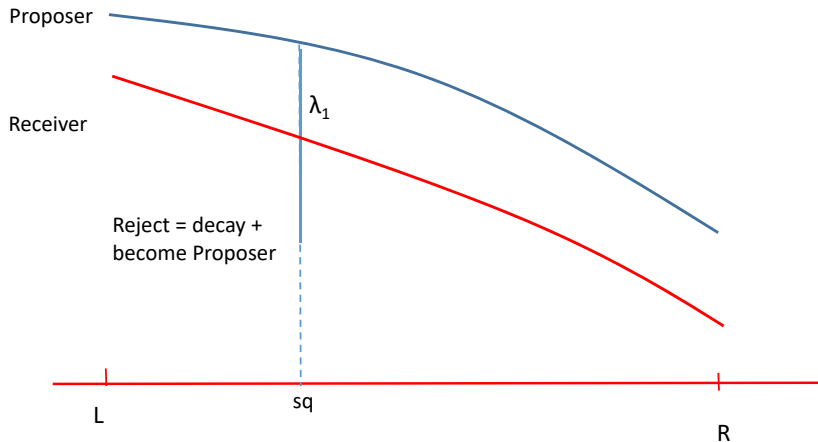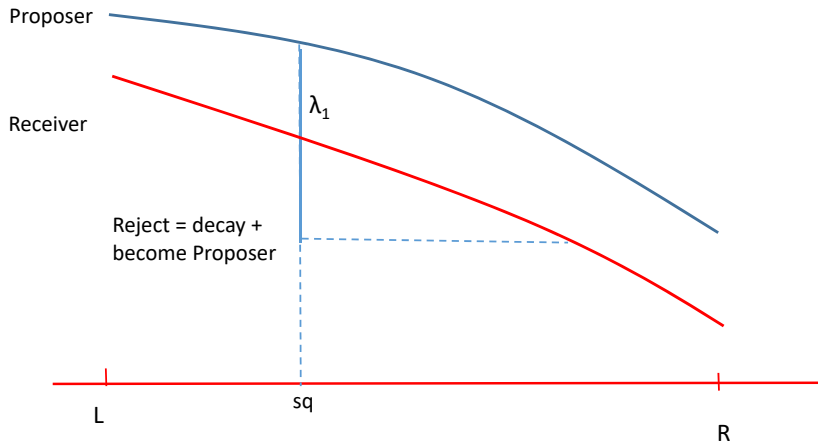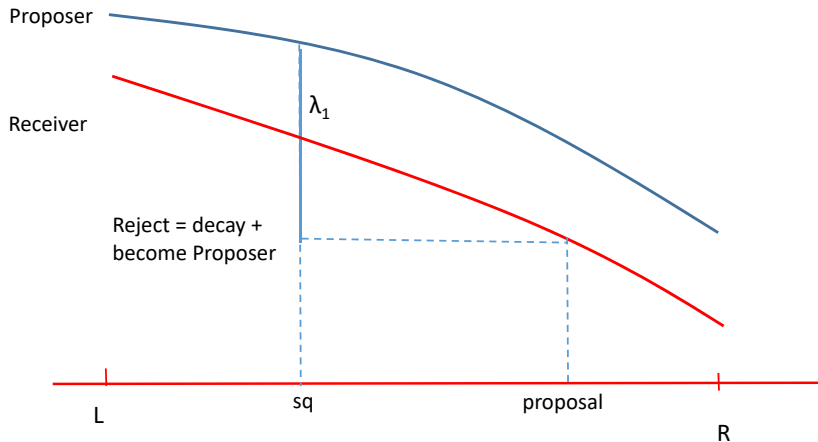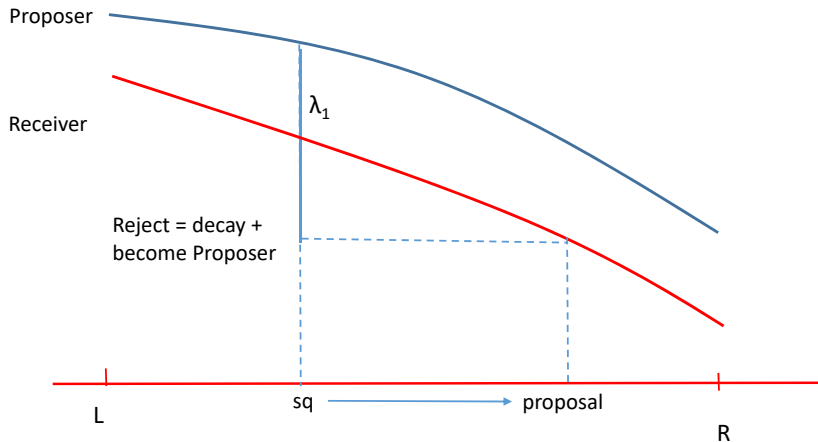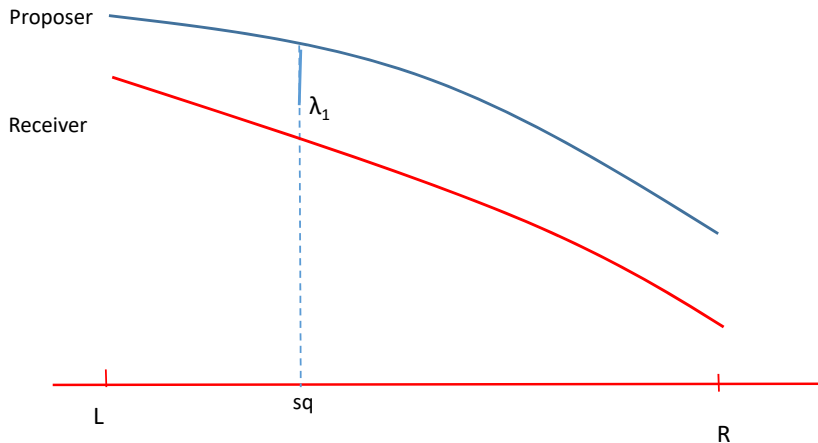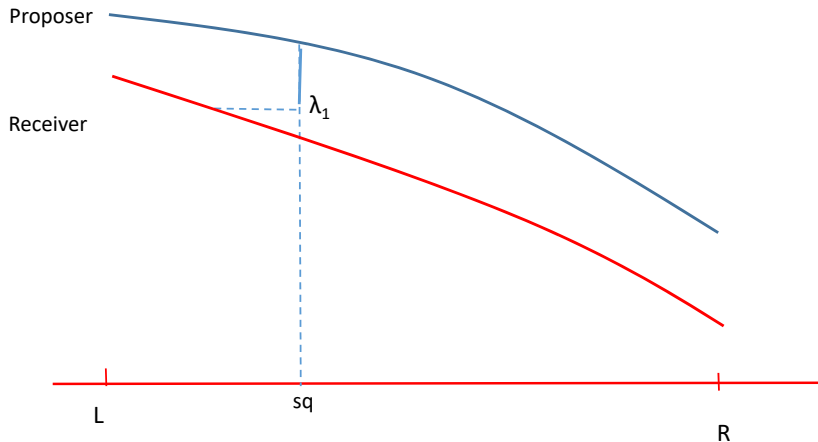- Proposal power valuable only on average.

Through L's Value Functions

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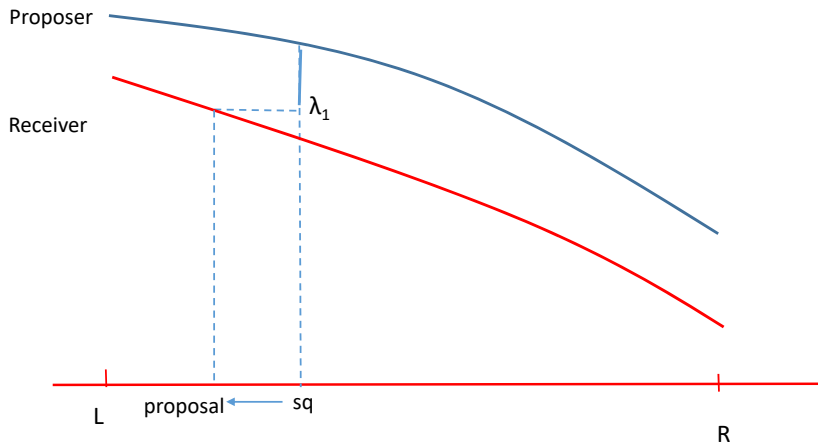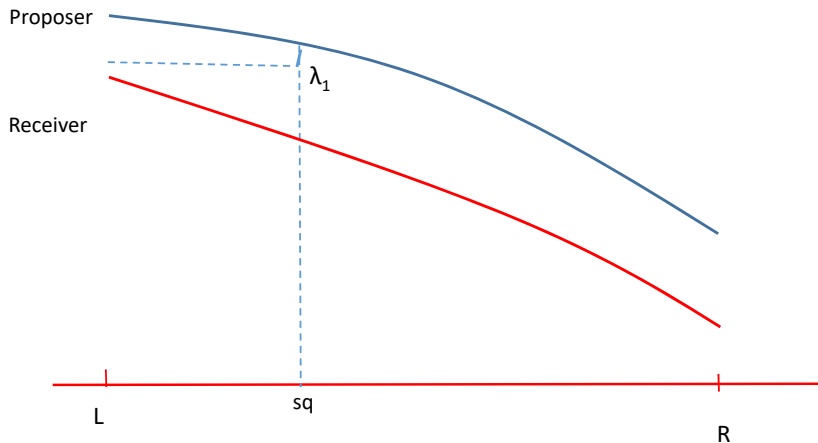
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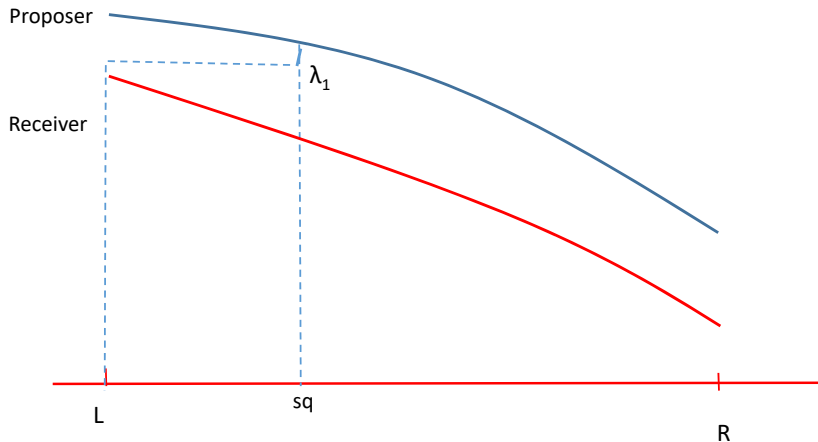
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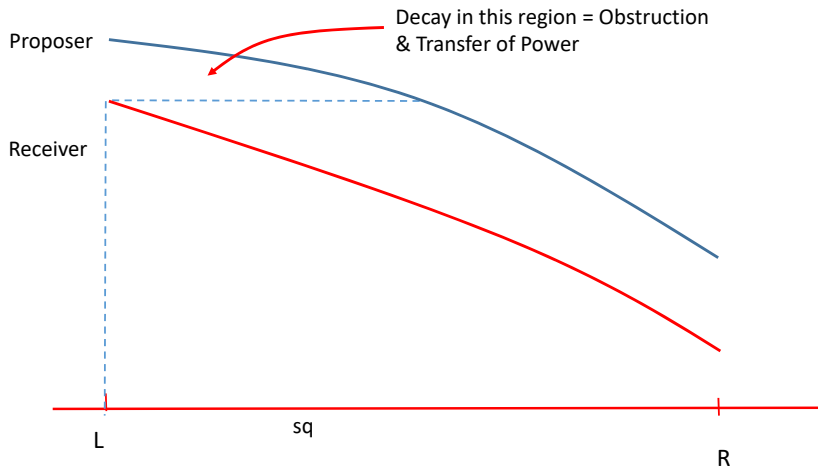- L's value function when Proposer or Receiver and set R as Proposer.

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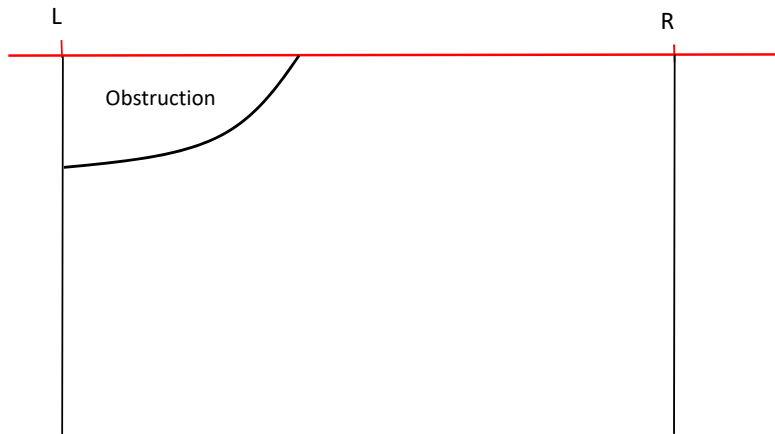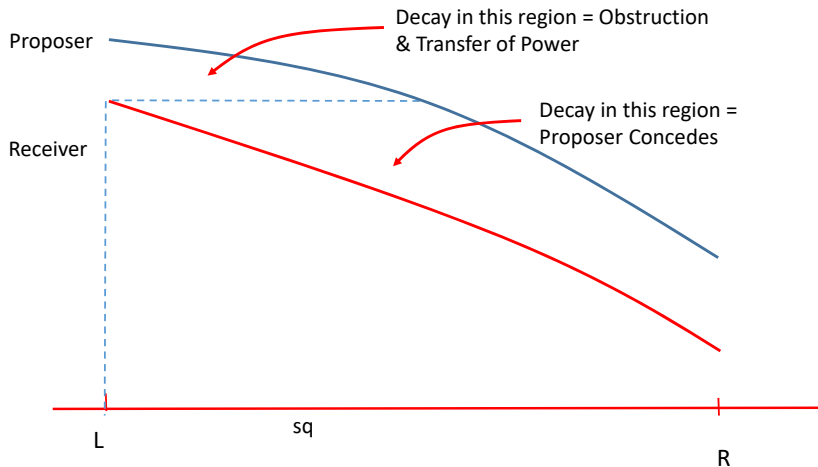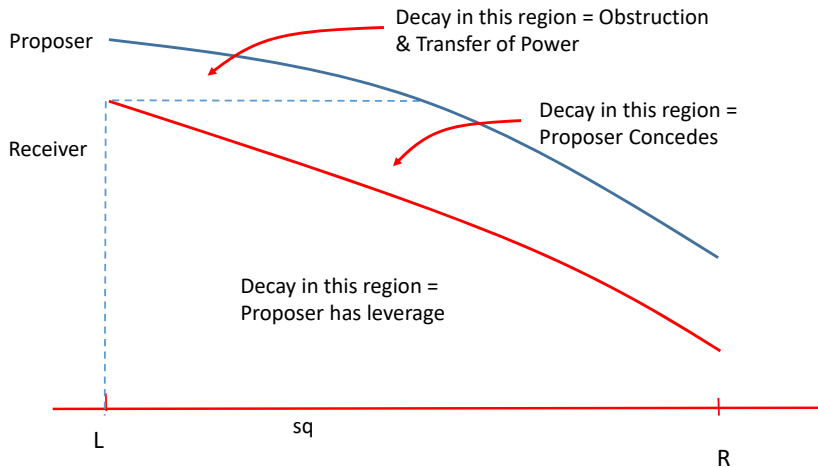- L's value function when Proposer or Receiver and set R as Proposer.

Equilibrium Regions

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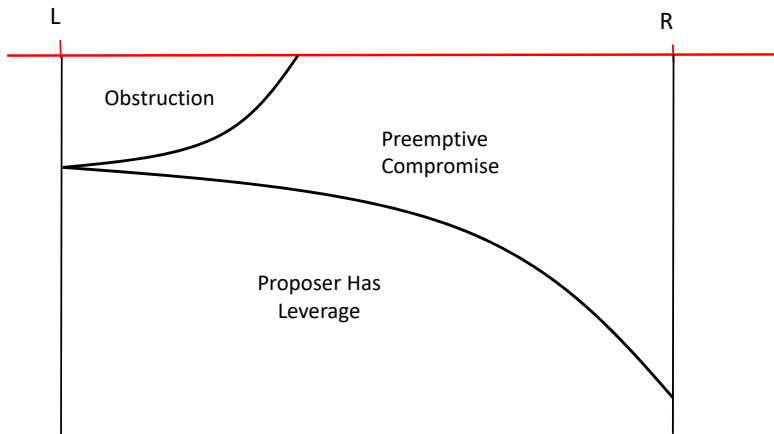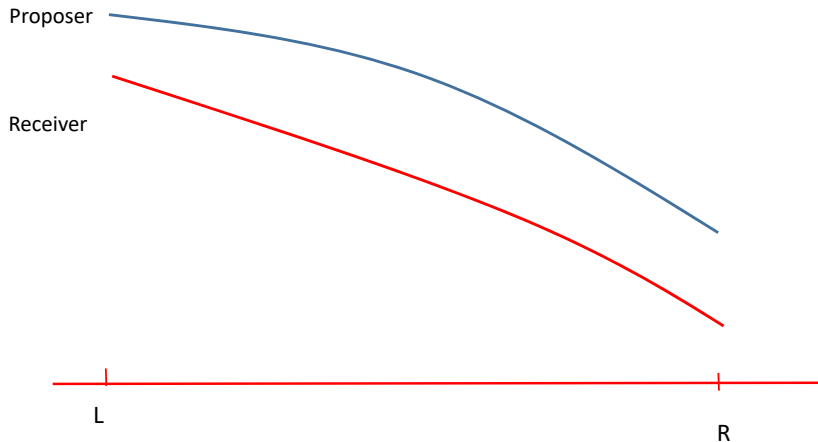

Proposer

Receiver

Decay in this region = Obstruction
& Transfer of Power

Decay in this region =
Proposer Concedes

L

sq

R

Equilibrium Regions

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Decay in this region = Obstruction
& Transfer of Power

Decay in this region =
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Receiver

Decay in this region =
Proposer has leverage

L

sq

R

Equilibrium Regions

Can Proposal Power be Negative?

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Receiver
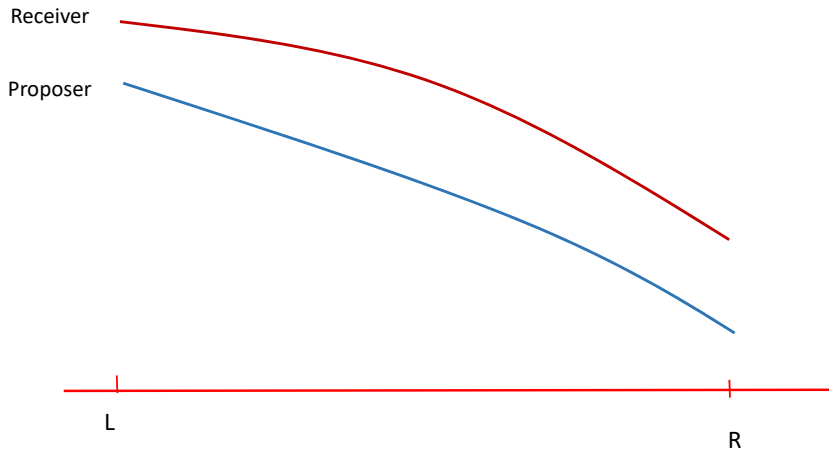
L

R

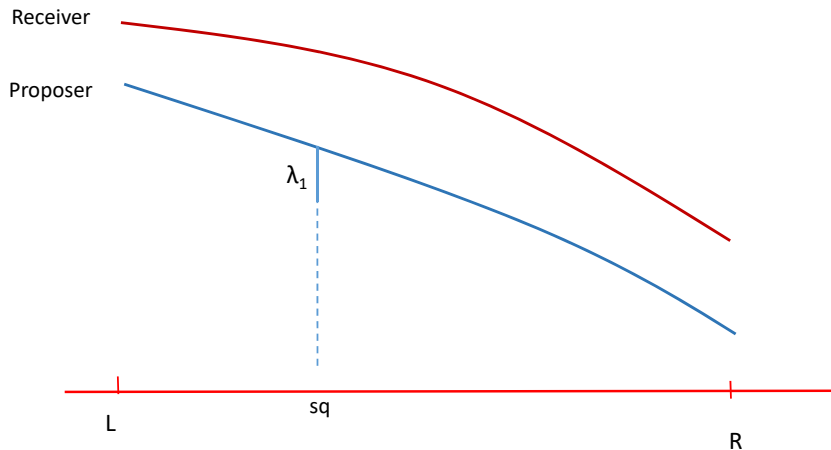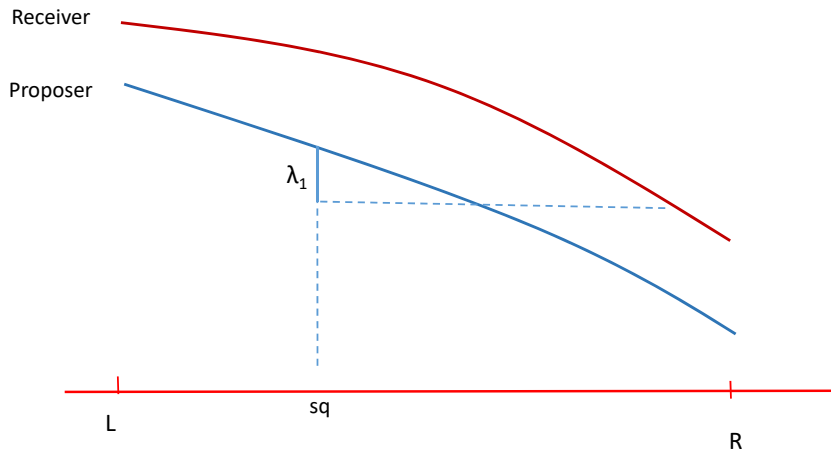# Can Proposal Power be Negative?
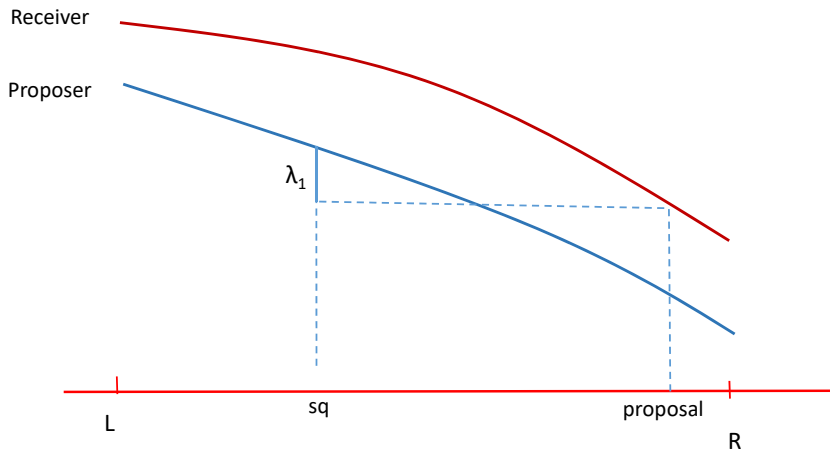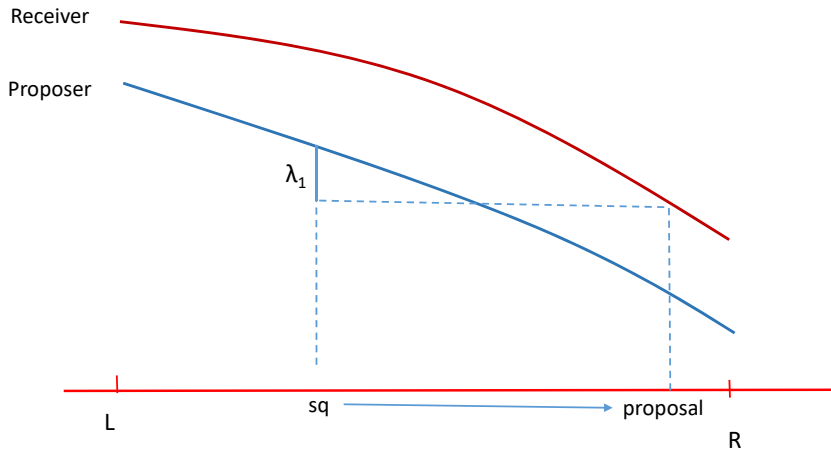
Can Proposal Power be Negative?

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Can Proposal Power be Negative?

Can Proposal Power be Negative?

- Proposer always has leverage ... so it's valuable to be the Proposer.

Endogenous Transitions — Equilibrium Properties

Property 1: The equilibrium path is statically inefficient.

Property 2: The Proposer's policy leverage weakens and can reverse.

- Proposer concedes on policy when decay is small.
- Government transitions when Proposer has no more policy to give.
- Proposer can't commit not to exploit proposal power tomorrow.
- Power transitions when government weak on policy.

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Property 4: Policy—and power—never stabilizes.

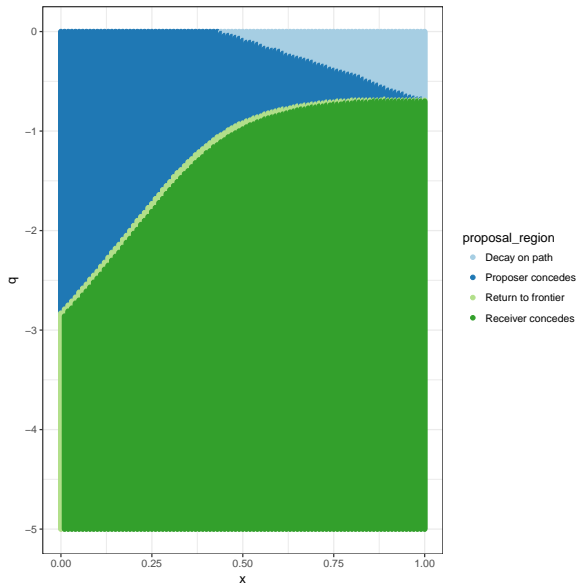- The equilibrium path has full support on $[0, \pi]$.

Equilibrium Numerically

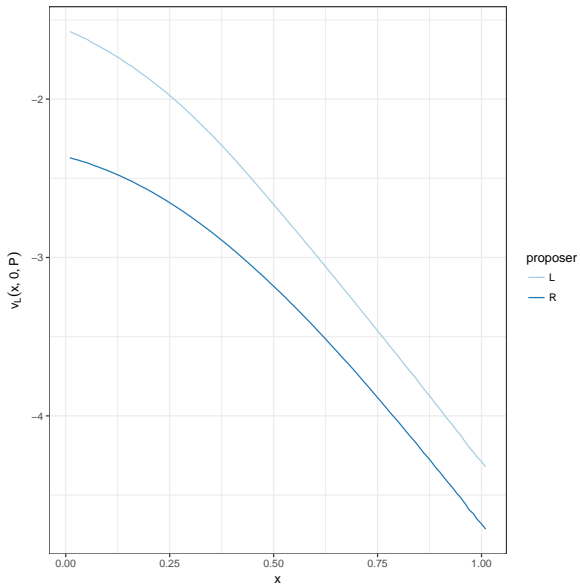- Solve equilibrium numerically:
  - One-period utility function:

    e.g., $u_L(x_t, q_t) = -\alpha_L x_t^2 + q_t$, $u_R(x_t, q_t) = -\alpha_R(x_t - \pi)^2 + q_t$

  - $\pi = 1$
  - $F(\lambda)$ mixture of point mass at 0 with probability 0.01 and an exponential of mean 1.
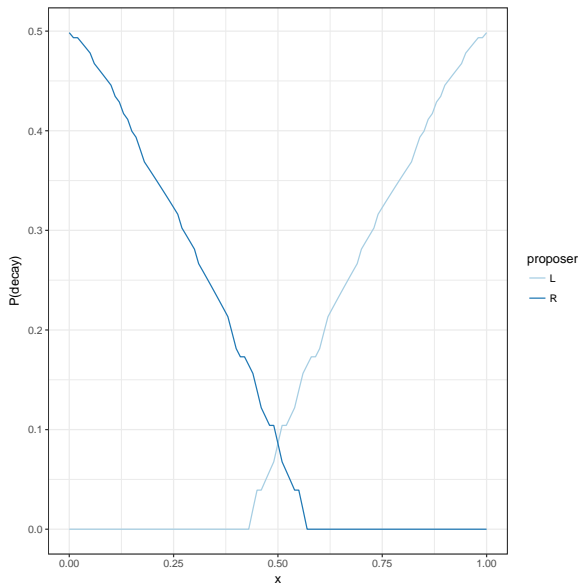 - Discount rate $\delta = 0.9$.
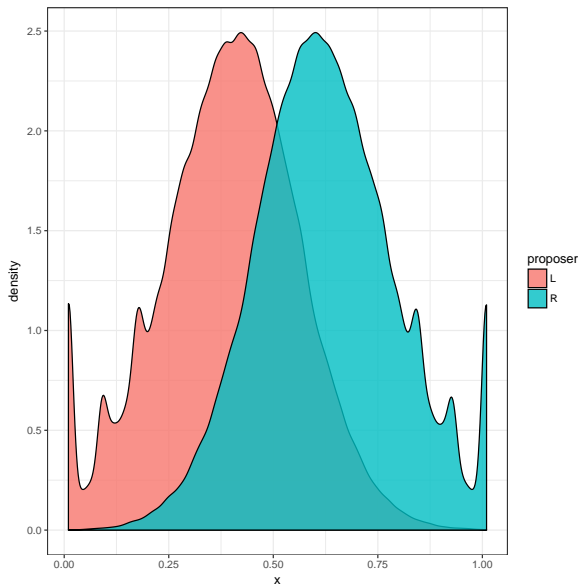
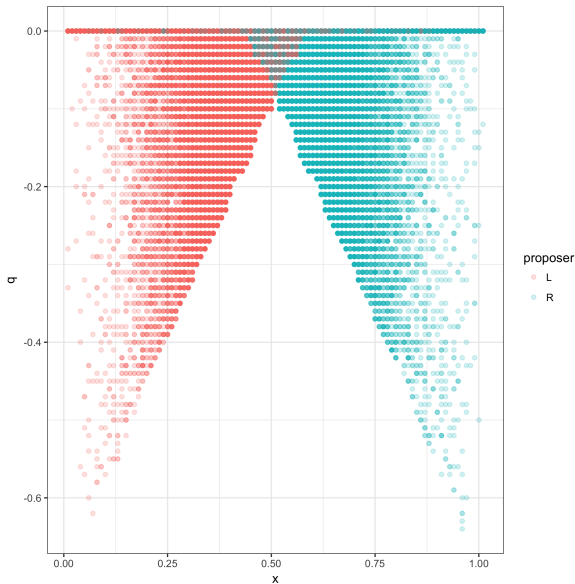# Equilibrium Behavior
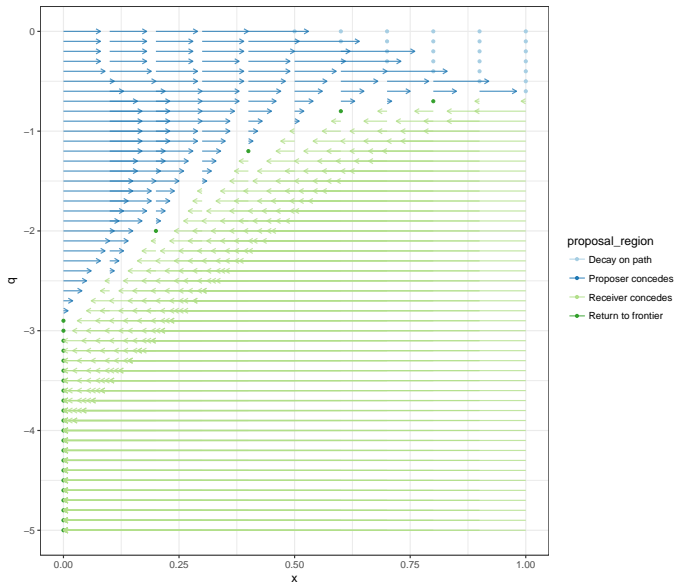
Proposal Power

Probability of Decay on Path

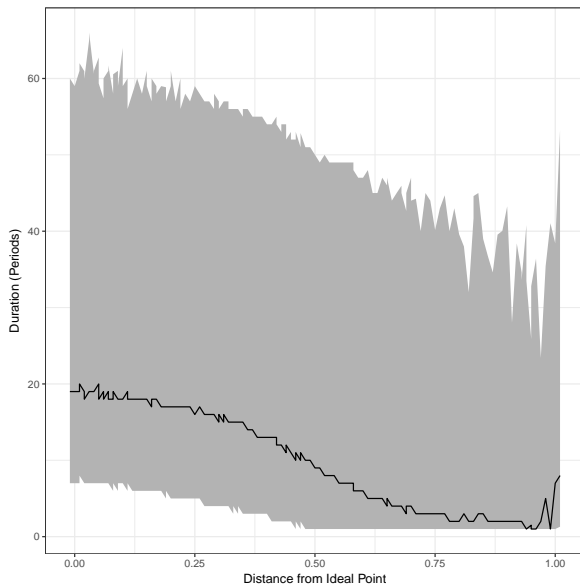# Density of Ideological Locations Visited

Scatter Plot of Realized Outcomes

Policy Flow: Slow Concessions & Dramatic Leverage
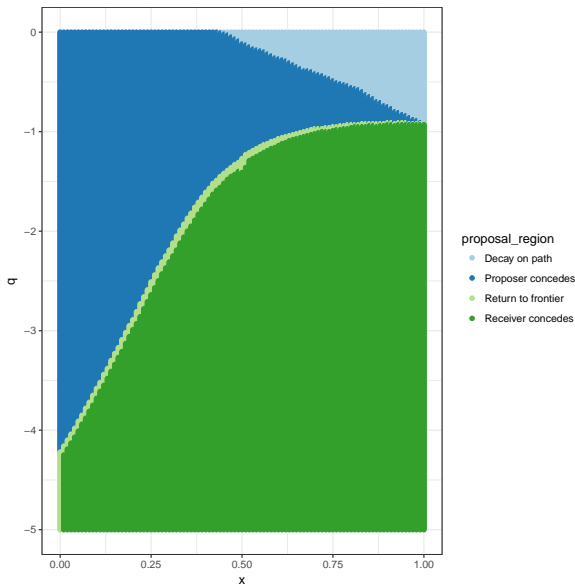
The Life and Death of Government

Extensions: Direct Office Benefit

- Add a non-policy benefit b of office.
- Proposer gets $b + u(x, q)$.

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- Add a non-policy benefit b of office.
- Proposer gets $b + u(x, q)$.
- Expands the "decay on path" region, slightly.
- Expands the "Proposer concedes" region significantly.
- Policy outcomes more central, unimodal.
- At cost of additional decay.

proposal_region
- Decay on path
- Proposer concedes
- Return to frontier
- Receiver concedes

Extensions: Imperfectly Attentive Voters

- Threshold q required for turnover is $\underline{q} < 0$.
- Voters don't notice small decay.

Extensions: Imperfectly Attentive Voters

- Threshold q required for turnover is $\underline{q} < 0$.
- Voters don't notice small decay.
- Substantially more decay experienced.
- Policy outcomes more polarized compared to base case.
- Though these effects are non-monotone.

proposal_region
- Decay on path
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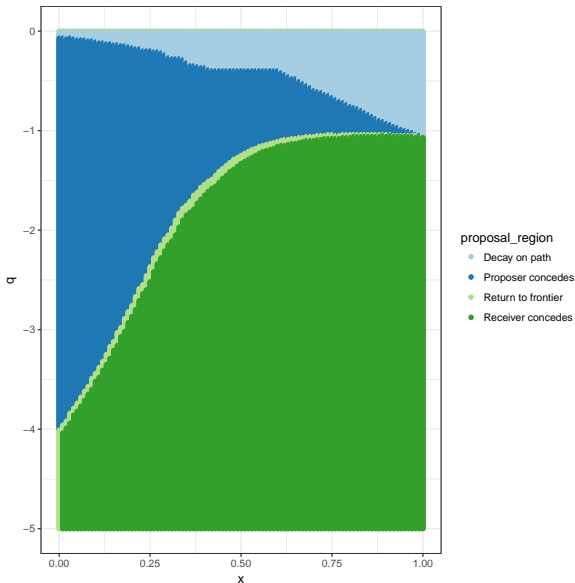
Conclusion

- Decay drives legislative policymaking.

- Decay provides power to agenda setter, even with "gridlock interval."

- Obstruction attenuates but does not eliminate agenda power.

- Threat of obstruction generates most power.

- Obstruction sometimes implemented & government turns over.
    - More likely when current policy is already favorable to the minority.
    - Correlation between ideological extremity & inefficiency / turnover.
    - Centripetal force on policy outcomes within the gridlock interval.

- General take-aways:
    - Decay is not 'noise' that washes out – games played around the trend.
    - Other applications of decay possible: e.g., contracts.